depreciation rates. As a result, incumbent LECs have generally been required to recover their invested capital too slowly.

CBT has always attempted to achieve appropriate depreciation rates relative to economic conditions (technological obsolescence, competition, life cycle studies, etc.) in its triennial reviews with state and federal regulators. However, the rates that have been awarded in the past have in the aggregate been lower than CBT has requested. The difference between the requested and prescribed rates have contributed to a depreciation reserve shortfall of approximately $185 million or approximately 25% of the year end 1996 reserve position (estimated based on the 1961-1996 time period). Even though this estimate does not reflect the effect of the dramatic changes brought about by the Telecommunications Act of 1996 (which CBT is still analyzing), it does illustrate the severity of the situation faced by CBT. The recovery of these investments is crucial in order for CBT to continue operating its existing network in accordance with service standards required by its regulators and expected by its customers. CBT submits that the Commission cannot usher in competition by requiring incumbent LECs to unbundle and resell their networks while at the same time cutting off one of the main sources of funds counted on by incumbent LECs to keep their networks operational. Moreover, the Commission is still requiring incumbent LECs to be the Carriers of Last Resort for Universal Service purposes. In order for CBT to meet these obligations/requirements without causing undue financial harm, CBT must be permitted to recover its previously invested capital.

Even though CBT has not finalized its parameters for determining its depreciation shortfall, it does support the Theoretical Reserve Methodology being proposed by USTA for the quantification of a LEC's depreciation shortfall. This methodology determines the difference between the theoretical reserve for the plant categories as if the economic lives had been in effect during the entire lifetime of the plant and the current depreciation reserve position. This methodology is the traditional methodology that has been used in past represcriptions/triennial reviews. Once the depreciation shortfall has been determined, CBT concurs with USTA that the depreciation shortfall should be recovered over a 5 year period from the IXCs via bulk billing. Thus, each year CBT would bill 20% of the shortfall to the IXCs. Each IXC's payment would be based on the ratio of the access revenues paid over the past three years relative to the aggregate of all IXC access revenues paid for the past three years. This change would be eliminated at the end of the five year amortization period.

Finally, in order to prevent the creation of future depreciation reserve deficiencies, incumbent LECs must be given the freedom to set their depreciation rates in accordance with Generally Accepted Accounting Principles to reflect the realities of the new competitive telecommunications marketplace.

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of	)	
	)	
End User Common Line Charges	)	CC Docket No. 95-72
	)	

REPLY COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

Cincinnati Bell Telephone Company ("CBT") hereby responds to various comments filed in response to the Commission's May 30, 1995 Notice of Proposed Rulemaking ("NPRM") in the above-captioned proceeding.

I. Commenters Generally Support the Per-Facility Approach

The NPRM recognized the problem posed by the application of multiple subscriber line charges (SLCs) to local loops used with Integrated Service Digital Network (ISDN) and other derived channel services.[1] In the NPRM, the Commission proposed several possible solutions to this problem, one of which was the so called "per-facility" approach.[2] Under the per-facility approach, customers of ISDN and other derived channel services would only be required to pay a single SLC charge for each local loop, regardless of the number of derived channels provided over that facility. CBT supported the per-facility

[1] NPRM at para. 1.

[2] NPRM at para. 24.

approach in its initial comments, emphasizing that it should be applied consistently to all derived channel services, not just ISDN.[3]

The parties filing comments in this proceeding appear to be in general support of the per-facility approach. The Tennessee Public Service Commission, for example, recommends assessing the SLC on the copper facility, not the derived channels.[4] Joint comments filed on behalf of four on-line service providers explain the importance of adopting a per-facility approach in terms of keeping prices for these advanced, derived channel services as affordable as possible for both residential and business users.[5] The importance of ISDN as an emerging technology is also recognized by the Rural Telephone Coalition, which recommends adoption of the per-facility approach.[6]

The interexchange carriers (IXCs) also generally support the per-facility approach, so long as it does not result in higher carrier common line charges.[7] AT&T, however, would stop short of adopting the per-facility approach on all derived channel services due to concerns about the upward pressure it may put on carrier common line charges.[8]

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[3] CBT Comments at p. 6.

[4] Tennessee Public Service Commission Comments at p. 4.

[5] Joint Comments of America Online Incorporated, Compuserve Incorporated, GE Information Services, Inc., and Prodigy Services Company at p.6-8.

[6] Rural Telephone Coalition Comments at p. 3.

[7] Sprint Comments at p. 3.; MCI Comments at p. 3.

[8] AT&T Comments at p. 8.

AT&T recommends using the per-facility approach for ISDN Basic Rate Interface (BRI) service,[9] but recommends that LECs be required to charge one SLC per derived channel for ISDN Primary Rate Interface (PRI) service.[10] The flaw in AT&T's proposal is that ISDN-PRI service can provide applications where multiple channels can be combined to provide a single communications path (*eg*., video conferencing). Therefore, an ISDN-PRI customer that uses applications requiring multiple derived channels to establish a single communications path is, in fact, establishing fewer actual channels. In other words, a customer may find that a 64 kbps channel is not fast enough for its application, which may require 128 kbps. This customer can use existing premise equipment to establish 128 kbps channels by combining two ISDN-PRI B-channels. Thus, a customer in this situation may actually be limited to 11 channels per ISDN-PRI facility, rather than the normal 23. CBT submits that customer use of these types of applications, as well as the size of the channels required to accommodate them, will grow continually, which undermines AT&T's logic for assessing one SLC per derived channel for ISDN-PRI services.

II. Concern Over Upward Pressure on the Carrier Common Line Charges, While Legitimate, Could be Alleviated by a Small Increase in the Subscriber Line Charge Cap

IXC concerns about the upward pressure that may be placed on carrier common line charges by adopting a per-facility for all derived channel services are legitimate. However,

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9 ISDN-BRI service provides two voice or data channels (B-channels) and a signalling/data channel over a single local loop.

10 ISDN-PRI service provides 23 voice or data channels (B-channels) and a signalling/data channel over a T-1 facility.

these concerns can be alleviated by implementing a modest increase in the residence and single line business SLC cap. In its initial comments, CBT recommended increasing the residence and single line business SLC cap from $3.50 to $3.75.[11] Several commenters address this issue, but believe any increase in the SLC cap should be addressed in the context of an urgently-needed, comprehensive review of the Commission' access charge rules.[12] While CBT supports the view that comprehensive reform of the Commission's access charge rules is needed, CBT believes that a modest increase in the residence and single line business SLC cap would constitute an appropriate interim measure until such comprehensive reform is undertaken and completed.

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[11] CBT Comments at p. 4.

[12] <u>See, eg.,</u> Comments of GTE at pp. 2-4.

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
End User Common Line Charges	)	CC Docket No. 95-72
	)	

COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

Cincinnati Bell Telephone Company ("CBT") submits these comments in response to the Commission's May 30, 1995 Notice of Proposed Rulemaking (the "NPRM") in the above-captioned proceeding.

I. Introduction

The NPRM seeks comment on the application of End User Common Line Charges (hereinafter referred to as "Subscriber Line Charges" or "SLCs") to local loops used with Integrated Services Digital Network (ISDN) and other services that permit the provision of multiple voice-grade-equivalent channels to a customer over a single facility.[1] CBT fully supports the initiation of this proceeding. Indeed, on March 16, 1995 CBT filed an Emergency Petition for Waiver of Section 69.104 of the Rules seeking permission to continue its current practice of assessing one SLC charge on each local loop used to provide

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[1] NPRM at para. 1.

ISDN Basic Rate Interface (BRI) services, and urging the Commission to initiate this rulemaking proceeding.

The introduction of ISDN and other derived channel technologies was not contemplated when the current access charge rules were adopted in 1983. If these new technologies are to survive and flourish, it is critical that the Commission reexamine its present rules as now applied to these derived channel services in the context of today's telecommunications environment.

II. Support Flows Should Be Limited

CBT submits that one of the underlying issues which must be dealt with in this proceeding is that of support flows. Non-traffic sensitive costs not currently recovered through the SLC are being artificially recovered through usage-based Carrier Common Line (CCL) charges to interexchange carriers (IXCs). As customers migrate to derived channel services, such as ISDN, which make it possible to replace existing services using multi-network terminations with a single loop, SLCs will recover proportionately less of the non-traffic sensitive cost. Under present Commission rules, this will lead to higher CCL rates. Higher CCL rates, in turn, will create a strong incentive for high volume users to bypass the LEC networks, resulting in an even greater threat to the existing access charge structure's ability to support universal service. Beyond this, as the Commission observes,[2] those access charge customers who do remain would have an incentive to increase their toll rates correspondingly to offset the higher CCL charges they would incur. As explained below in

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[2] NPRM at para. 18.

more detail. CBT believes the correct long-term approach is to avoid raising CCL rates and instead recover a greater portion of the non-traffic sensitive costs from end users as the cost causers.

III. The NPRM Identifies Several Possible Options for Assessing Subscriber Line Charges on Derived Channel Services

As the Commission correctly points out, there are potentially several ways to compute the number of SLCs for ISDN and similar derived channel services.[3] Among the options identified in the NPRM, CBT submits that the per-facility approach is the most appropriate.[4] The per-facility approach recognizes that the costs incurred by LECs to provide ISDN and other derived channel services are not dependent on the number of channels provided and, thus, would allow LECs to price these services closer to their true economic cost. This ability is essential in a competitive marketplace. Moreover, as noted in the NPRM, the per-facility approach would also: (1) not discourage the use of derived channel technologies; (2) permit residential and business customers to take advantage of technologically advanced derived channel services at rates lower than those required under the current rules; and (3) facilitate improved access to the national information infrastructure.[5]

CBT acknowledges that the primary drawback of the per-facility approach is that it could result in lower SLC revenues, and correspondingly place upward pressure on other interstate rates. The Commission's concern in this regard is legitimate if LECs are provided

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[3] NPRM at para. 21.

[4] NPRM at para. 24-26.

[5] NPRM at para. 24.

no other option than to recover the shortfall by increasing their CCL rates. However, CBT submits that any reduction in SLC revenues can be avoided through the implementation of a modest increase in the SLC.[6] The Commission notes that the present $3.50 level of the residence and single line business SLC cap was implemented in April, 1989.[7] A modest increase in this cap to $3.75 would represent just over a 1% annual increase since 1989 and, when coupled with adoption of the per-facility approach, would offer the following advantages:

1. CCL charges would be likely to decrease in most instances;
2. The residence and single line business cap would move closer to the multiline business cap and the underlying cost of each; and
3. A 25 cent monthly increase would have a minimal impact on charges to affected subscribers.

For these reasons, CBT recommends that the residence and single line business cap be increased to $3.75 as an interim measure until such time as the Commission undertakes comprehensive reform of its access charge rules.

In the alternative, the Commission could permit, but not require, LECs to apply fewer SLCs to derived channel services and, at the same time, modify its rules to prevent any resulting reduction in SLC revenue from serving as a basis to increase CCL rates.[8] Either of these approaches would alleviate the Commission's concerns about the impact on interstate toll rates.

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[6] Indeed, the Commission acknowledges the possibility of such an approach at para. 34 of the NPRM.

[7] NPRM at para. 7.

[8] NPRM at para. 34.

The "Intermediate Options" identified in the NPRM fall short of dealing directly with the issue of support flows. They merely offer an arbitrary means by which partial SLCs might be applied to derived channels.[9] These interim measures seek to preserve universal support funds in the short term by creating additional support flows, rather than making progress towards removing them. Such options are not sustainable in today's competitive telecommunications environment.

IV. Non-Traffic Sensitive Costs Are Not Channel Dependent

As CBT pointed out in its Emergency Petition for Waiver, the assessment of one SLC on each local loop is consistent with the non-traffic sensitive costs incurred. Since the costs incurred by LECs to provide ISDN and other derived channel services are not dependent upon the number of channels provided, the rates charged to recover those costs should not be dependent upon the number of channels provided. To assess a SLC, or a portion thereof, on a per channel basis would be arbitrary and inconsistent with the goal of reducing support flows. A per channel assessment would discriminate against customers who subscribe to derived channel services, forcing them to pay a greater portion of non-traffic sensitive costs than they truly incur. Such an uneconomic imposition of cost burdens would serve to discourage new customers from subscribing to derived channel services, and would likely encourage existing customers of those services to seek less costly alternatives.

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[9] NPRM at para. 27-30.

V. Any Rules Adopted in this Proceeding Should Apply Equally to All Derived Channel Services

CBT submits that any rules adopted in this proceeding must apply equally to all derived channel services regardless of the technologies used. CBT currently offers three derived channel services, one of which employs a technology other than ISDN. In addition to ISDN-BRI, CBT offers an ISDN Primary Rate Interface service called "PRIME Advantage^{SM}". PRIME Advantage^{SM} consists of one primary rate facility (up to 23 B-channel bearer trunks) and a D-channel bearer facility which performs signaling functions. CBT's non-ISDN based service is called "Trunk Advantage^{SM}". Trunk Advantage^{SM} provides a 1.544 megabit digital trunk facility and up to twenty-four 64 kilobit digital trunk channels. PRIME Advantage^{SM} and Trunk Advantage^{SM} are currently offered in a rate relationship that reflects their market value and level of technical sophistication. CBT currently assesses SLCs similarly for both of these services. A failure to apply the rules to all derived channel services would make it difficult for CBT to maintain these important rate relationships between PRIME Advantage^{SM} and Trunk Advantage^{SM}, which could send incorrect pricing signals causing unnecessary service churn, customer confusion and uneconomic customer purchase decisions.[10]

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[10] For the same reasons, CBT submits that the non-enforcement policy announced by the Common Carrier Bureau on May 30, 1995 should extend to non-ISDN based derived channel services. See, Public Notice (DA 95-1168), released May 30, 1995.

VI. Conclusion

CBT supports the Commission's initiative to address the application of SLCs to ISDN and other derived channel services. CBT believes there is no cost-based reason for applying differing SLCs to local loops based upon the number of channels being provided over the facility in question. To assess different charges for the same facilities would discriminate against customers using derived channel services, and discourage future use and development of services which increase the capabilities of the local loop. Accordingly, CBT urges the Commission to adopt a per-facility approach for all derived channel services which results in a single SLC charge per local loop, regardless of the number of channels provided.

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